



## Independent Auditor's Report

To the Inspector General,  
Library of Congress, and  
Cooperative Acquisitions Program Revolving Fund

We have audited the accompanying balance sheet of the Cooperative Acquisitions Program Revolving Fund (CAPRF) as of September 30, 2000, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended. These financial statements are the responsibility of CAPRF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, "*Audit Requirements for Federal Financial Statements*." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements including the accompanying notes present fairly, in all material respects, the financial position of CAPRF as of September 30, 2000, and its net costs, changes in net position, and budgetary resources for the year then ended, in accordance with U. S. generally accepted accounting principles.

In accordance with *Government Auditing Standards* we have also issued reports dated March 16, 2001 on our consideration of CAPRF's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*. The Supplemental Schedules are presented for the purposes of additional analysis and is not a required part of the financial statements. This information contains a wide range of data, some of which is not directly related to the financial statements. We have applied certain limited procedures, which consisted principally of comparing this information for consistency with the financial statements and discussing the methods of measurement and presentation with CAPRF officials. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

*Clifton Gundersen LLP*

Calverton, Maryland  
March 16, 2001



## Independent Auditor's Report on Compliance with Laws and Regulations

To the Inspector General,  
The Library of Congress, and  
The Cooperative Acquisitions Program Revolving Fund

We have audited the financial statements of the Cooperative Acquisitions Program Revolving Fund (CAPRF) as of and for the year ended September 30, 2000, and have issued our report thereon dated March 16, 2001. We conducted our audit in accordance with U. S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, "*Audit Requirements for Federal Financial Statements*."

The management of CAPRF is responsible for complying with laws and regulations applicable to CAPRF. As part of obtaining reasonable assurance about whether CAPRF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 01-02. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to CAPRF.

The results of our tests of compliance disclosed no instances of noncompliance with the laws and regulations described in the preceding paragraph that are required to be reported under *Government Auditing Standards* and OMB Bulletin 01-02.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of CAPRF, the Library of Congress Office of the Inspector General, the management of the Library of Congress, and Congress, and is not intended to be and should not be, used by anyone other than these specified parties. We caution that noncompliance may occur and not be detected by the tests performed and that such testing may not be sufficient for other purposes.

*Clifton Gunderson LLP*

Calverton, Maryland  
March 16, 2001

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## Independent Auditor's Report on Internal Control

To the Inspector General  
Library of Congress, and  
The Cooperative Acquisitions Program Revolving Fund

We have audited the financial statements of the Cooperative Acquisitions Program Revolving Fund (CAPRF) as of and for the year ended September 30, 2000, and have issued our report thereon dated March 16, 2001. We conducted our audit in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, "*Audit Requirements for Federal Financial Statements*."

In planning and performing our audit, we considered CAPRF's internal control over financial reporting by obtaining an understanding of CAPRF's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives in OMB 01-02. As the Library is not subject to the requirements of the Federal Managers' Financial Integrity Act (31 U.S.C. 3512) (FMFIA), we did not test internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect CAPRF's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being

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audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted certain matters, discussed in the following paragraphs, involving the internal control and its operation that we consider to be reportable conditions. However, none of the reportable conditions are believed to be a material weakness.

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## **REPORTABLE CONDITIONS**

### **1. PARTICIPANT LIABILITY BALANCE RECONCILIATION AND RECORD KEEPING**

Issues surrounding the participant balances which impacted management's ability to reconcile and report the liability due participants on a timely basis are as follows:

**Completing Timely and Accurate Reconciliations at September 30, 2000** - Reconciliations of program participants' balances were not submitted and accurately reconciled within the time frames as required by Financial Statement Directive (FSD) 00-01. The final adjustments and reconciliations of ending participant balances were not completed until March 2001.

Financial Statement Directive (FSD) 00-01 "Guidelines for Financial System Reconciliations", was issued and effective in October 1999. This directive required that the reconciliation report be due by the 15<sup>th</sup> day of the third month following each accounting period (e.g., the September 30<sup>th</sup> report due on December 15<sup>th</sup>). Timely preparation of financial statements depends upon timely and accurate completion of the required reconciliations.

**Issuance of a Status of Participant Account Balance** - CAPRF did not provide its participants with a status of their balances on a timely basis. Sound internal controls dictate that participant balances be maintained, as well as distributed to the participants, in an effort to resolve any disagreements on ending balances or other activity during the year.

#### ***Recommendations:***

We recommend the following:

- Develop procedures to insure timely performance of required quarterly reconciliations of program participants' accounts.

- Prepare and send a Status of Participant Account on a quarterly basis to each participant. The Status of Participant Account should include the beginning balance, payments processed, costs incurred, unliquidated obligations, and the ending balance for materials, binding, shipping and air mail.

## **2. REVIEW ADEQUACY OF COST RECOVERY MODEL AND RESERVE**

CAPRF lacked a system to look at the results of the procedures over a period of time to determine their adequacy in recovering the full costs of the program.

CAPRF used several systems to set the fees, record revenue and analyze annual activity. The indirect and overhead cost recovery was based on a percentage of materials as determined by the African/Asian Acquisition and Overseas Operations Division (Af/A-OvOp) Participant Cost Recovery Model which was prepared annually. The indirect cost activity was compared to the indirect revenue fees annually, but this data was not incorporated into the Af/A-OvOp Participant Cost Recovery Model.

For the first year of operation, 1998, all funds collected for indirect costs in prior years of operation in the gift funds, in the amount of \$1,384,163, were considered start-up capital authorized in Public Law 105-55. As of September 30, 2000, there was a cumulative net loss of \$704,023. Included in this cumulative net loss are one-time charges pertaining to the start-up of CAPRF of \$248,228.

### ***Recommendation:***

- We recommend that Af/A-OvOp develop a methodology for incorporating the recoverable portion of the cumulative net losses of CAPRF, which amount to \$455,795 at September 30, 2000. In addition, Af/A-OvOp should also develop a methodology for analyzing the adequacy of the reserve.

## **3. SECURITY PRACTICES OVER INFORMATION TECHNOLOGY SYSTEMS NEED TO BE IMPROVED**

The CAPRF's systems environment is threatened by weaknesses in several information protection control structures. The CAPRF had not implemented security policies and procedures to ensure that the CAPRF's resources were restricted to authorized individuals and that critical data was protected. The controls in place were inadequate to fully protect information systems' resources from unauthorized access, unauthorized use, or damage. The presence of these weaknesses increases the risk that the CAPRF's data and equipment are not properly safeguarded. The details of the matters are as follows:

- Entity-Wide Security Program needs to be documented. The CAPRF lacks a documented comprehensive security administrative structure to manage and protect its information systems. The management procedures and organizational framework need improvement for identifying and assessing risks, deciding what policies and controls are needed, periodically evaluating the effectiveness of these policies and controls, and acting to address any identified weaknesses. These are the fundamental activities that allow an organization to manage its information security risks cost effectively, rather than reacting to individual problems on an ad hoc basis, or after a violation has been detected or an audit finding has been reported.
- The contingency plan at the Cairo field office is not current. The existing contingency plan only addresses problems related to Y2K. The Plan is outdated and includes 2 systems no longer used by the office.
- Application software change controls were inadequate. The African/Asian Acquisitions and Overseas Operations Division (Af/A-OvOp) lacks a documented system life cycle methodology. Af/A-OvOp also lacks an administrative structure and management policies to manage the program change control process. The change controls process is informal and varies depending on the analyst in-charge of the program change. The Af/A-OvOp does not have a uniform System Development Life Cycle methodology (SDLC) or Configuration management policies. A comprehensive change control process may have prevented the events that led management decisions to withdraw the implementation of IFOS.

***Recommendations:***

We recommend the following:

- We recommend that the CAPRF document and implement security policies and procedures to ensure that resources are restricted to authorized individuals and that critical data is protected. We recommend that management establish a structure to implement the security program. The structure generally consists of a core of personnel who are designated as security managers. The security management function also serves as a focal point for others who play a role in evaluating the appropriateness and effectiveness of computer-related controls on a day-to-day basis for each of the field offices.
- Develop and test a disaster recovery plan for the field offices and provide formal emergency-response training to staff.

- Document a uniform SDLC methodology. Develop an administrative and management structure to control the program change and implementation processes.

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We have reviewed our internal control matters with CAPRF's management and concluded that no change is needed to our findings or recommendations. We will continue to work closely with management to help them fully understand the key points of our recommendations.

In addition to the reportable conditions described above, we noted certain matters involving internal control and its operations that we reported to the management of CAPRF in a separate letter dated March 16, 2001.

This report is intended for the information and use of the management of CAPRF, the Library of Congress Office of the Inspector General, the management of the Library of Congress, and Congress, and is not intended to be and should not be, used by anyone other than these specified parties.

*Clifton Henderson LLP*

Calverton, Maryland  
March 16, 2001